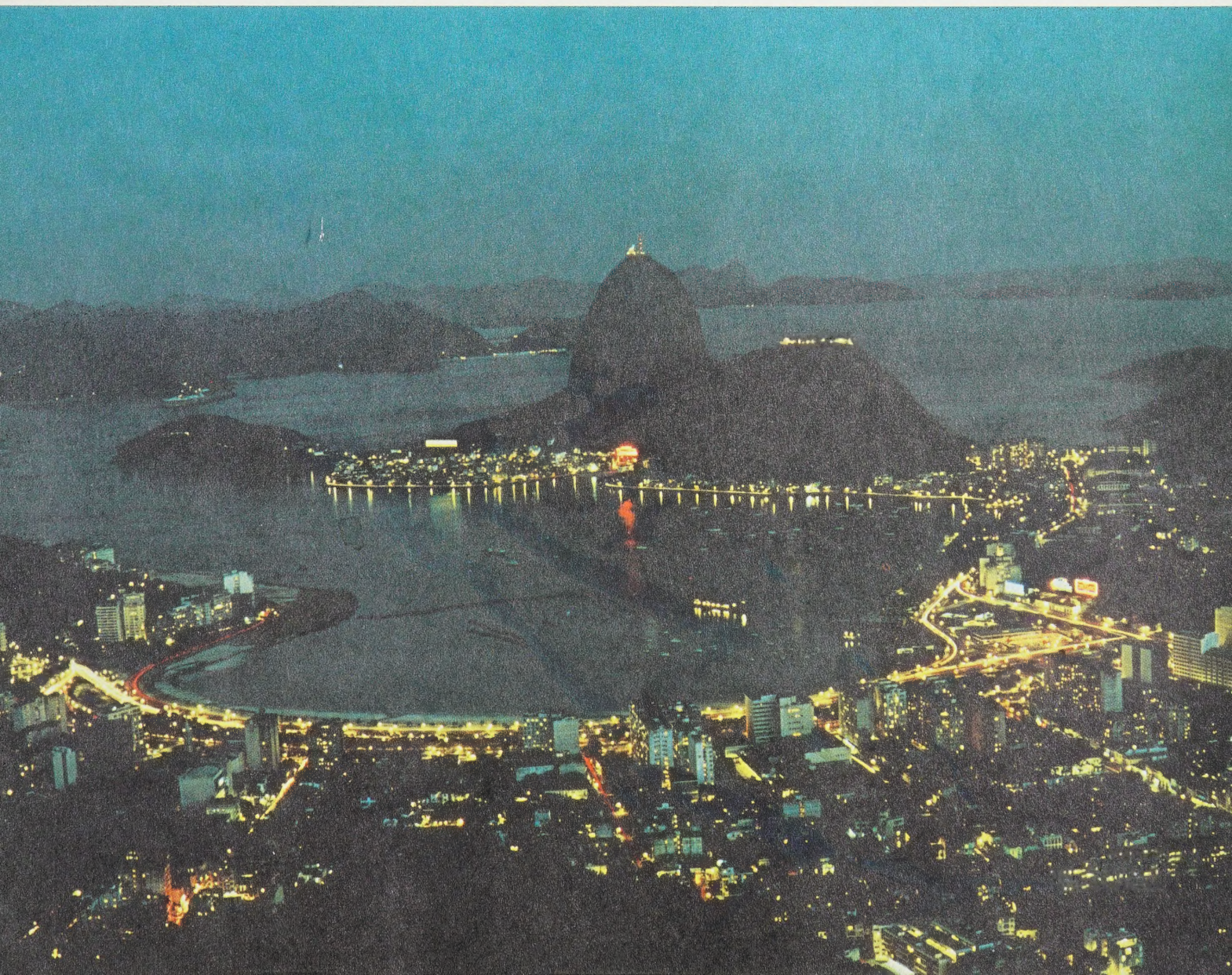


BRAZILIAN TRACTION LIGHT AND POWER COMPANY LIMITED

AR29

Annual Report 1964



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Foreword

As its name suggests, the Company had its origin in the field of public transportation, its first operations, in 1899, being the furnishing of tramway service in São Paulo. Gradually, over the years, the enterprise expanded into other public utility fields, serving principally the cities of Rio de Janeiro and São Paulo and contiguous territory.

Within the past twenty years, the Company has withdrawn completely from the provision of public transportation. Today, the Company's operations, carried on through a number of subsidiary companies in Brazil, consist of the supply

of electricity, gas and telephone services. Electrical energy is supplied to the industrial heart-land of Brazil, including the cities of São Paulo and Rio de Janeiro. The Company's telephone system, with approximately seventy per cent of all telephones in the nation, serves the major areas of south-eastern Brazil. Manufactured gas is produced and distributed in the cities of Rio de Janeiro, São Paulo and Santos.

The provision of these services over many years has played an important part in the development and progress of Brazil.

Comparative Highlights

	1964	1963	Increase (Decrease)
Revenue from sales of utility services - - - - -	\$149,404,416	\$159,378,431	(6.3 %)
Kilowatt-hours sold—millions - - - - -	11,241	11,183	0.5 %
Gas sold—millions of cubic feet - - - - -	11,927	11,489	3.8 %
Telephones in service - - - - -	862,648	844,725	2.1 %
Capital expenditures - - - - -	\$ 14,746,000	\$ 18,938,000	(22.1 %)
Plant, property and equipment (less reserves) - - - - -	\$634,408,661	\$642,951,807	(1.3 %)
Long-term debt - - - - -	\$ 88,377,684	\$101,409,163	(12.9 %)
Ordinary shares outstanding—December 31 - - - - -	17,294,671	17,294,671	—
Book value per ordinary share - - - - -	\$29.27	\$29.30	(\$.03)
Net income (loss) per ordinary share - - - - -	(\$.03)	(\$.07)	\$.04
Number of customers - - - - -	3,458,224	3,328,424	3.9 %
Number of employees - - - - -	40,361	39,987	0.9 %

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

Directors

HERMANN J. ABS Director, Deutsche Bank AG - - - Frankfurt on Main	J. PETER GRACE President, W. R. Grace & Co. - - - - - New York
PIERRE ANSIAUX Member of the Bar of the Supreme Court of Belgium - - - - - Brussels	LEWIS B. HARDER Chairman, International Mining Corporation - New York
HENRY BORDEN - - - - - Toronto	W. C. HARRIS President, Harris & Partners Limited - - - - - Toronto
THE RT. HON. THE LORD BRIDGES - - - - - London	R. L. HEARN - - - - - Toronto
E. G. BURTON Chairman and Chief Executive Officer, Simpsons, Limited - - - - - Toronto	PAUL E. MANHEIM Lehman Brothers - - - - - New York
WALKER L. CISLER Chairman, The Detroit Edison Company - - - Detroit	BEVERLEY MATTHEWS McCarthy & McCarthy - - - - - Toronto
JOHN F. GALLAGHER Vice-President—International Operations, Sears, Roebuck and Co. - - - - - Chicago	K. H. MCCRIMMON - - - - - Rio de Janeiro
ANTONIO GALLOTTI VICE-PRESIDENT - - - - - Rio de Janeiro	NEIL J. MCKINNON Chairman and Chief Executive Officer, Canadian Imperial Bank of Commerce - - - - Toronto
J. GRANT GLASSCO PRESIDENT - - - - - Toronto	JOHN G. PHILLIMORE Director, Baring Brothers & Co. Limited - - - London
G. BLAIR GORDON Chairman, Dominion Textile Company Limited - Montreal	LAZARUS PHILLIPS Phillips, Bloomfield, Vineberg and Goodman - Montreal
	CLARANCE STANLEY - - - - - New York
	FERNAND VANLANGENHOVE - - - - - Brussels

Honorary Directors

E. C. Fox - - - - - Toronto	W. A. G. KELLEY - - - - - Toronto
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Officers

J. GRANT GLASSCO <i>President</i>		
E. G. BURTON <i>Vice-President</i>	ANTONIO GALLOTTI <i>Vice-President</i>	J. H. A'COURT <i>Vice-President—Finance</i>
A. R. G. AMENT <i>Treasurer</i>	L. A. ALLEN <i>Secretary</i>	R. R. SUTHERLAND <i>Comptroller</i>

AS AT APRIL 20, 1965

<i>Head Office</i>	25 KING STREET WEST, TORONTO 1, CANADA
<i>Principal Bankers</i>	Canadian Imperial Bank of Commerce - - - - - Toronto
<i>Auditors</i>	Clarkson, Gordon & Co. - - - - - Toronto
<i>Transfer Agents</i>	National Trust Company, Limited - - - - - Toronto, Montreal and Vancouver First National City Bank - - - - - New York
<i>Registrars</i>	Canadian Imperial Bank of Commerce - - - - - Toronto, Montreal and Vancouver Bankers Trust Company - - - - - New York

52nd Annual Report to the Shareholders

Your Directors submit the following Annual Report on the Company's affairs, together with the audited financial statements for the year 1964, including the consolidated balance sheet of the Company and its subsidiary companies in Brazil as at December 31, 1964, and the related statements of consolidated income and earned surplus for the year ended on that date.

POLITICAL CHANGE

This Report covers a year of impressive and basic change for Brazil. The coming into office of the revolutionary Government of President Humberto Castello Branco in April 1964 marked a halt to the deterioration in the economic and political fabric of the nation. Legislation initiated by the new Government has introduced important reforms. In many cases results are already apparent; in others the improvement sought should be not long delayed; but the problems still facing the nation are complex and difficult, and constitute a continuing challenge to the ingenuity and resolution of the Government.

The impact of these developments upon the Company is profound. For reasons mentioned later herein, the various changes will be fully reflected in our accounts only in 1965. However, this report of the operations of 1964 should be read in the light of the conduct of the revolutionary Government to date.

STABILIZATION AND DEVELOPMENT PROGRAM

Of immediate interest to shareholders is a group of measures, having financial and economic objectives, which can be described as a program for stabilization and development. The Government's efforts to contain inflation and to solve the country's

serious balance-of-payments problem are of particular importance to the Company.

INTERNAL PRICE LEVEL

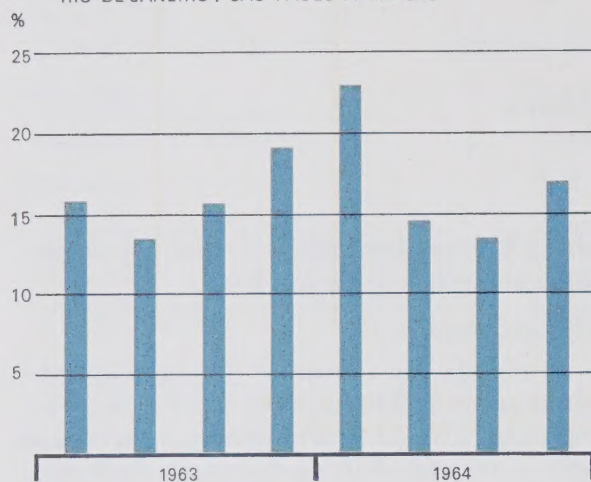
For the first quarter of 1964, inflation proceeded at an accelerating pace which, had it not been checked, might have resulted in an increase of 140% in the cost of living during the whole year. The anti-inflationary steps taken in the succeeding nine months reduced such increase to approximately 86% for the year, somewhat higher than that experienced in 1963.

One of the first steps taken was to reduce the federal government deficit which, it has been estimated, might have reached 2,000 billion cruzeiros had the trends of the first quarter continued throughout the year. Preliminary figures indicate that the cash deficit for 1964 was approximately 700 billion cruzeiros. Substantial reductions were made in the expenditures of the Government itself and of the various government-controlled undertakings. An important saving was effected through the discontinuance of subsidies on imports of petroleum, wheat and newsprint, although such action necessarily resulted in sharp rises of consumer prices for such products. Revenues were increased through a drastic revision of the federal tax structure and the adoption of improved collection methods. These included the application to tax arrears of the concept of monetary correction, calling for upward adjustment of overdue taxes to match the depreciation in the value of the currency.

A new type of government obligation was introduced with the issue of National Treasury Bonds (initially 700 billion and raised later to 1,200 billion cruzeiros) which carry what amounts to an escalation clause calling for quarterly revaluation in accordance with changes in the value of the cruzeiro.

Brazil—Cost of Living 1963-1964

PERCENTAGE INCREASE IN EACH QUARTER
RIO DE JANEIRO / SÃO PAULO AVERAGES



(Based on figures from Conjuntura Econômica)

The slow-down in the rate of increase in living costs which occurred following the first quarter of 1964 is illustrated by the chart above which shows the trend of such costs in Rio de Janeiro and São Paulo, Brazil's two largest cities. This trend is reflected in wage levels. As of March 1, 1965, the new Government increased the minimum wage by 57%, which compares with the 100% increase decreed early in 1964. The Company's employees in Brazil were granted a 50% wage increase as of January 1, 1965, compared with a 100% increase conceded a year earlier.

Legislation was enacted in December transforming the present currency and credit control agency into a central bank. The new Central Bank of the Republic will operate under the direction of a National Monetary Council, appointed by the President, which will determine the currency, credit and exchange policies of the country. New rules will bring under stricter control the issue of currency. The Bank of Brazil will continue to function as financial agent of the National Treasury and principal banker to the Government, but will no longer be able to grant credits to the Treasury.

At the beginning of 1964 Brazil was faced with a heavy burden of arrears and maturing instalments of foreign obligations. The economic and financial instability prevailing through the first quarter of the year seriously threatened the country's international credit, and the new Government was faced with the urgent necessity of restoring confidence abroad.

Largely as a result of a radically restrictive profits remittance law enacted in 1962, the flow of private foreign investment to Brazil virtually ceased. The new Government moved swiftly to modify this measure and new legislation has eliminated the more restrictive provisions of the former law. This action and the recent signing of an investments guarantee agreement between Brazil and the United States are expected to encourage the movement of capital to Brazil.

The results of Brazil's foreign trade in 1964, set out in detail on page 10, were a factor in the significant improvement in Brazil's balance of payments, estimates of which indicate a favourable balance of \$70 million for 1964 compared with a deficit of \$308 million for 1963.

International assistance has been forthcoming on an impressive scale. The United States Government, directly and through the Alliance for Progress, extended substantial aid in 1964 and further grants totalling \$450,000,000 from this source for disbursement in 1965 have been announced. It is anticipated that international financial institutions and private lenders will advance a further \$450,000,000 in 1965. In addition, the re-scheduling of current maturities of indebtedness to private creditors abroad is expected to provide relief amounting to \$120,000,000 during the current year.

In January 1965, the International Monetary Fund extended a credit to Brazil of \$125,000,000. Noteworthy also is the resumption, after a lapse of six years, of lending to Brazil by the International Bank for Reconstruction and Development.

The improvement in Brazil's exchange situation as a whole has permitted a considerable reduction in the total of arrears of remittances on current account. At December 31, 1964, these included \$8,254,346 owing to the Company, carried on the balance sheet as "Amounts due from the

Comparative Statement of Consolidated Income

YEAR ENDED DECEMBER 31	1964 (000)	1963 (000)	1962 (000)
Operating revenues - - - - -	\$149,404	\$159,378	\$139,946
Operating revenue deductions:			
Operating expenses including provision for estimated taxes -	118,610	126,239	110,644
Provision for depreciation - - - - -	21,774	21,228	20,609
	<u>140,384</u>	<u>147,467</u>	<u>131,253</u>
Operating income - - - - -	9,020	11,911	8,693
Other income - - - - -	2,210	1,193	2,051
Net income before interest and other financial charges - - - - -	11,230	13,104	10,744
Income deductions - - - - -	11,673	14,338	9,504
Net income (loss) for the year - - - - -	<u>(\$ 443)</u>	<u>(\$ 1,234)</u>	<u>\$ 1,240</u>

Bank of Brazil". Since that date \$4,000,000 has been received and the exchange authorities have advised that the balance will be liquidated forthwith.

INCOME

The statements of consolidated income for 1964 and the two preceding years are summarized in the table above. It will be noted that in 1964 the Company suffered a consolidated net loss of \$442,541, compared with a consolidated net loss of \$1,234,012 in 1963 and consolidated net income of \$1,240,162 in 1962.

As in the past the consolidated financial statements are expressed in United States currency (as are all dollar figures contained in this Report, unless otherwise indicated). The Company's operating revenues are earned entirely in cruzeiros in Brazil, and the operating expenses are likewise incurred almost entirely in that currency. Notes 1 and 2 to the Financial Statements which appear on pages 18 and 19 of this Report explain the principles applied in converting revenues and expenses (as well as assets and liabilities) from other currencies into United States dollars. The cruzeiro net income for 1964 has thus been converted into United States dollars on the basis of valuing dollar transfers at the exchange rates at which these were remitted from Brazil in 1964 and of valuing the unremitted balance of such income at the average free-market rate for that year. The result of the application of this conversion formula during the past six years has been to value the cruzeiro, for earnings purposes, at the following composite rates:

COMPOSITE RATES USED FOR CONVERSION OF EARNINGS

CRUZEIROS PER U.S. DOLLAR			
1959	Cr\$114	1962	Cr\$ 367
1960	Cr\$142	1963	Cr\$ 578
1961	Cr\$188	1964	Cr\$1,264

The average free-market rate during 1964 was Cr\$1,293 to the U.S. dollar, compared with Cr\$578 and Cr\$391 in 1963 and 1962 respectively. The rate in the free market at December 31, 1964 (and at the date of this Report) was Cr\$1,850 to the U.S. dollar. Since the abolition of preferential exchange rates in July 1961, all remittances from Brazil have been paid for at the free-market rate.

The decline in the composite exchange rate from Cr\$578 in 1963 to Cr\$1,264 in 1964 resulted in a substantial reduction in the dollar value of 1964 cruzeiro net income, even though the cruzeiro amount of such net income was considerably higher than in 1963. This reduction in dollar value was more than offset, however, by decreases in foreign exchange adjustments, interest on long-term debt, and a substantial increase in "Other Income". The charge for foreign exchange adjustments relates principally to the writing-down of cruzeiro working capital at the year end.

APPLICATION OF FUNDS

The following table indicates in summary form the funds made available to the Company and its subsidiaries in 1964, and the manner in which these funds were applied.

FUNDS MADE AVAILABLE

Funds provided from operations (consisting of depreciation, less the net loss for the year) - - - - -	\$21,331,441
Customers' contributions in aid of construction - - - - -	2,892,581
Medium-term financing, construction surcharges and installation fees, received from the public, and other deferred credits - - - - -	4,693,732
Miscellaneous receipts (net) - - -	55,475
Reduction in working capital - - -	2,373,269
TOTAL - - - - -	<u>\$31,346,498</u>

FUNDS APPLIED

Capital expenditures - - - - -	\$14,746,431
Reduction of long-term debt (net) -	13,031,479
Deposits made in respect of taxes in dispute pending final determination of liability, and other increases in "SUNDRY ASSETS" - - - - -	3,494,523
Preference dividends paid - - - -	21,898
Purchase of shares in CHEVAP (a state-owned power company) - - - -	52,167
TOTAL - - - - -	<u>\$31,346,498</u>

CAPITAL EXPENDITURES

Capital expenditures in all currencies in 1964 totalled the equivalent of \$14,746,000, the lowest figure in many years. The corresponding amounts for the three previous years were:

1961	\$30,181,000
1962	\$22,181,000
1963	\$18,938,000

The total of \$14,746,000 was divided approximately as follows: electric generation and transmission \$129,000; electric distribution \$8,484,000; telephones \$5,518,000; gas production and distribution \$615,000.

EXCHANGE AND REMITTANCES

During 1964 the free-exchange market was broadened, and all commercial and financial transactions are now carried out in this market. The December 31, 1963, rate of Cr\$620 to the dollar was maintained until the latter part of February 1964, when it increased sharply, finally settling at Cr\$1,200 to the dollar in the latter part of March. The Bank of Brazil maintained the Cr\$1,200 rate until mid-August, when it was increased briefly to Cr\$1,255; in September it moved sharply upwards again,

settling at Cr\$1,610 and remaining at this level until late December. At that time it was increased to its present level of Cr\$1,850 to the dollar. Rates quoted by the private banks were higher than the Bank of Brazil rate throughout most of 1964, but since the end of October all rates have been maintained at substantially the same level.

Remittances made by the subsidiaries in 1964 for the servicing of their debt to the Company were limited to the 1964 portion (\$10,000,000) of the \$12,000,000 of exchange contracts referred to in the Annual Report for 1963.

UTILITY RATES

ELECTRIC

Shareholders were advised by letter on March 5 last of the increases approved by the Brazilian Government in the rates charged by the Company's electric subsidiaries. The decrees authorizing these rate increases for the several companies were published on March 3, 1965, and the new rates became applicable to connected loads and energy consumption recorded after the first meter readings following that date. They will thus apply, on the average, to approximately three-quarters of 1965 sales.

Throughout the year 1964 the basic rates at which energy was sold remained at the levels established in 1955 and 1956. The companies continued, as in prior years, to collect surcharges on rates in amounts required to meet the increases in costs of wages, fuel oil, purchased power, and debt service, which occurred subsequent to those years. As a result of the foregoing, virtually no return on the Company's equity investment in its electric subsidiaries was realized in 1964.

Previous annual reports have made reference to the monetary correction, or write-up, of the historical cruzeiro cost of plant in service and related depreciation reserves, designed to reflect the cumulative decline in the value of the cruzeiro. The monetary correction was recognized as part of the rate-base in a series of decrees issued by the Ministry of Mines and Energy in November 1964, and these decrees provided the basis for the revised rates now in force. It is of interest to note that the monetary correction of net plant at December 31, 1963 recorded by the electric subsidiaries in 1964 resulted, on the average, in a seven-fold increase in cruzeiro book values. A portion of this increase

was applied to adjust the cruzeiro book value of the foreign debt of the subsidiaries to the December 31, 1963 exchange rate of Cr\$620 to the dollar. The balance, amounting to 285 billion cruzeiros, was transferred to capital reserve accounts which must eventually be used to increase cruzeiro share capital. In lieu of paying the statutory 5% tax on this sum, most of the companies elected to purchase government securities, carrying an escalation clause, from the issue referred to earlier in this Report. These are being paid for in monthly instalments over a long period.

The new electric rates are provisional until such time as the authorities complete the definitive determination of the companies' remunerable investment. This work is well advanced, but will not be completed for some time yet. Under the terms of the decrees authorizing the rates, however, the companies are now operating for the first time under the system of "service at cost" called for by the Water Code of 1934. As applied to our companies, this envisages the establishment of rates sufficient to cover all operating expenses including depreciation, a provision for amortization (in part) of the investment and remuneration calculated at 10% on the rate-base, the monetary correction being taken into account in the calculations, where applicable. Between the periodic rate revisions provided for by the regulations, rate surcharges are to be applied to cover increases in certain specific costs, as heretofore.

The establishment of the new provisional electric rates is a significant development for the Company. It is essential that they be maintained on a current basis by immediate adjustment whenever future monetary corrections of the rate base are recorded. The continuation of the expansion, already under way, of the distribution networks to relieve their present overloaded condition and to attend to new demands for service depends upon such adjustments.

Reference has been made in the past to Law No. 4156 of 1962, which called for the issue to Eletrobrás of voting stock of the electric subsidiaries in consideration of certain consumer contributions to the capital cost of making new connections. No shares have yet been issued to Eletrobrás. Contributions up to the end of 1964 which may have to be capitalized in this manner total Cr\$1,036,642,900. It is not anticipated that this

figure will increase materially, as the companies should henceforth be able to finance the cost of new connections with funds generated from operations.

TELEPHONES

Apart from adjustments to compensate for wage increases, limited progress only was made in the settlement of new rates. Several rate increases approved by municipalities have been for some time awaiting confirmation by the federal telecommunications agency—CONTEL. The most notable development was the approval by such agency of the contract with the city of São Paulo to which reference has been made previously. As a result of the financing which will become available under this contract, plans are under way to expand the Telephone Company's facilities in that area to a substantial degree. Contracts embodying provisions similar to the São Paulo city contract have been negotiated with a number of cities in the States of São Paulo and Rio de Janeiro, but have not yet received federal approval.

As a result of the monetary correction of the assets of the Telephone Company, the prospects for securing more adequate rates in the coming year are considerably improved.

GAS

Mention was made in the Annual Report for 1963 of the serious financial situation faced by the Société Anonyme du Gaz de Rio de Janeiro, which manufactures and distributes town gas in the State of Guanabara. This situation deteriorated still further in 1964, when that company had an operating loss of Cr\$1,491,471,886. Gas rates have been adjusted to compensate for general wage increases and, with substantial delays, to cover increases in raw material costs. For three years however these rates have not provided revenues sufficient to cover the cash cost of operating the service. A solution is being sought in discussions with the State authorities, but the outcome of these is unpredictable.

PROSPECTIVE SALE OF UTILITY PROPERTIES

Shareholders have been advised that discussions have been held from time to time over the past three years regarding the possible sale of the Company's telephone utility to the Government of Brazil. The possibility that such a sale will take place still exists, but the matter is not at present being actively negotiated.

In view of the Government's announced policy of maintaining and encouraging privately-owned electric utilities through fair treatment, the possibility of the transfer to the State of the Company's electric subsidiaries has now become remote.

EXPANSION OF ELECTRIC SERVICES

The policy of the Brazilian Government has for some years required that expansion of electrical generating capacity be carried out by State enterprises, in some of which there is minority participation by private interests. During 1964 new capacity totalling 450,000 kilowatts came into service on systems interconnected with our companies and most of this new power was made available to them.

Work is continuing on the Furnas hydro plant, the Funil project, and at Jupia, all developments in which the operating companies have minority interests. Further, arrangements have been completed for financing the foreign currency costs involved in the completion of the Peixoto plant and the development of sites at Estreito and Xavantes. The locations of these sites are shown on the map at the back of this Report.

As a result of extensions made by the Furnas Company to their transmission circuits, our São Paulo system was enabled to receive power from the four units, each of 150,000 kilowatt capacity, already installed in the Furnas plant. The operating companies are continuing to develop their plans so as to be able to utilize any additional power that may be forthcoming from outside sources and attention is being given to the problem of frequency conversion. The Government has recently set the frequency of 60 cycles per second as a new standard for all of Brazil, and it will be necessary in collaboration with Eletrobrás, the responsible government agency, to develop plans for converting our 50-cycle Rio system to 60 cycles.

Because of the failure of the authorities over many years to grant adequate rates, our companies have been unable to expand their distribution systems fully to keep pace with the growth of demand. Coincident with the coming into force of the new rates in March 1965, a start was made to relieve the overloaded condition which existed. A comprehensive program has been developed for execution over the next five years to enable our companies to accommodate the load growth in our service areas and

to permit of the efficient distribution of the large amounts of new energy due to become available from generating plants now building. The investment called for is a substantial one and negotiations are under way looking to the borrowing by our subsidiaries of the funds necessary to cover a portion of this program.

OPERATIONS—1964

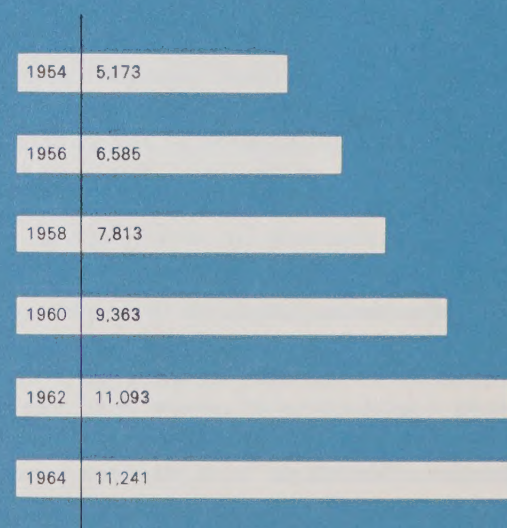
ELECTRIC LIGHT AND POWER

A serious drought covering all our generating systems, which developed in 1963, persisted through most of 1964. The major reservoirs serving the hydraulic plants of the companies were almost empty as the year began and remained so throughout the year. Even though the Piratininga thermal plant worked to capacity, and purchases of energy from other suppliers increased more than three-fold, there was not enough energy available to supply the demand. It was, as a result, necessary to ration energy in both our major markets during most of the year. The energy sold, 11.2 billion kilowatt hours, represented an increase of only 0.5% over the previous year while the number of customers increased by 5.1% to 2,182,275.

As the year ended, normal rainfall was again experienced over the watersheds of the companies'

Electric Energy Sold

(MILLIONS OF KILOWATT HOURS)



Telephones

(NUMBER IN SERVICE)

1954	599,235
1956	677,316
1958	729,857
1960	787,198
1962	832,047
1964	862,648

water resources and rationing was discontinued. In the early months of this year very heavy rainfall has resulted in an important replenishment of the storages and the likelihood of further restrictions has thus been removed.

For many years the companies have purchased energy from neighbouring utilities, but only in the last two years has purchased power carried a significant portion of the load. In 1964, 27.6% of the energy sold was purchased from interconnected systems, principally from the Furnas power plant where additional generating units came into service in 1964.

Rio System

The number of customers increased by 25,523 during the year and amounted to 807,191 at December 31, 1964. As a result of rationing, however, sales of electricity in 1964, totalling approximately 3.5 billion kilowatt hours, were only 3.5% above those of 1963. Transformer capacity of the distribution system was increased by approximately 4% during the year.

São Paulo System

The effects of rationing were more severely felt in the São Paulo system where 1964 sales amounted to approximately 7.7 billion kilowatt hours, a decrease of 0.8% compared with the 1963

figure. Transformer capacity of the distribution system was increased by approximately 7% during the year, and the number of customers increased by 80,042, totalling 1,375,084 at December 31, 1964. Progress was made in meeting the demand for new connections and the number of outstanding requests for service was reduced during the year.

TELEPHONES

At the end of 1964 there were 862,648 telephones in service in the companies' networks, an increase of 17,923 during the year. The number of unfilled applications continued to grow and, by the year-end, the accumulated total amounted to approximately 578,000. However, the records undoubtedly contain a large number of duplications and the real demand for telephone installations is considerably smaller than the records indicate.

GAS

The gas subsidiary companies, carrying on operations in the cities of São Paulo, Rio de Janeiro, and Santos, together had sales for the year of 11,927 million cubic feet, an increase over 1963 of 3.8%. The number of registered consumers grew in 1964 by 6,312.

Technical studies have been conducted with respect to the modernization of our gas production facilities and their possible conversion to petroleum

Gas Sold

(MILLIONS OF CUBIC FEET)

1954	10,225
1956	11,551
1958	11,424
1960	11,738
1962	11,988
1964	11,927

type feedstocks. Should it be possible to conclude reasonable arrangements with the conceding authorities, such a conversion would bring about substantial cost reductions and provide a basis for profitable operation.

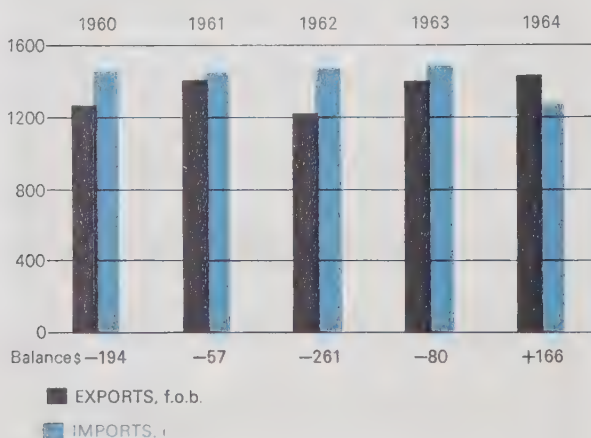
PRODUCTION AND TRADE

In 1964, both industrial output and agricultural production in Brazil were prejudiced by continuing inflation, adverse climatic conditions, and political uncertainty which reached a climax on March 31. Agricultural production, suffering the effects of frost, drought, and fire, was reduced by 6.5% below the 1963 figure, while industrial output declined slightly from the level of the previous year. The value of Brazil's total output in 1964, as measured by the Gross Domestic Product, is estimated to have declined from the level attained in 1963.

Brazil's international trading during 1964 resulted in an impressive improvement in the balance of trade compared with the previous year. The value of Brazil's exports and imports and the resulting balance-of-trade figures for the last five years are shown in the chart below. The favourable balance in 1964 of \$166 million, the largest for

Brazil-Foreign Trade 1960-1964

VALUE EXPRESSED IN MILLIONS OF DOLLARS

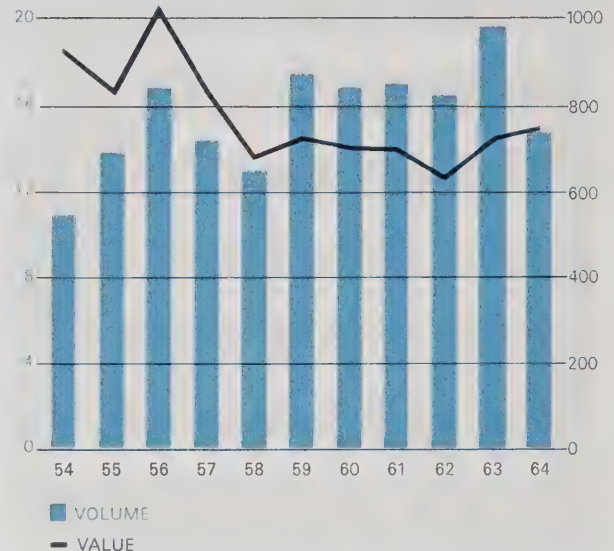


(Based on figures supplied by Brazilian Ministry of Finance)

Brazil-Coffee Exports 1954-1964

VOLUME IN
MILLIONS OF BAGS

VALUE IN
MILLIONS OF DOLLARS



(Based on figures supplied by Brazilian Ministry of Finance)

several years, indicates the success of government measures to stimulate exports and reduce imports.

As the chart above shows, although the volume of Brazil's coffee exports in 1964 was 24% below the total for the preceding year, the value was slightly greater owing to increased prices during most of 1964.

From the table of Brazil's principal exports, shown on page 11, it will be seen that, while 1964 exports of agricultural products produced less revenue than in the preceding year, exports of other products were up in value. Government incentives for the export of manufactured goods were in part responsible for a significant increase in the value of such exports which produced approximately \$70 million in 1964 compared with \$37.4 million in 1963.

DIVIDENDS

Dividends paid on the preference shares amounted to (Canadian) \$23,604 for the year. No dividends on the ordinary shares were paid in 1964.

Brazil—Principal Exports

	VALUE EXPRESSED IN MILLIONS OF DOLLARS				
	1964	1963	1962	1961	1960
Coffee - - - - -	759.7	748.3	642.7	710.4	712.7
Cotton - - - - -	108.3	114.2	112.2	109.7	45.6
Iron Ore - - - - -	80.6	70.4	68.3	59.8	53.0
Manufactured Goods - - - - -	69.9	37.4	34.0	36.5	23.0
Pinewood - - - - -	46.4	34.8	36.2	47.6	42.7
Cocoa Beans - - - - -	34.8	35.0	24.2	45.9	69.2
Sugar - - - - -	33.1	72.4	39.5	65.6	57.8
Manganese Ore - - - - -	20.6	24.6	27.5	31.9	29.8

(Based on figures supplied by Brazilian Ministry of Finance)

DIRECTORS AND OFFICERS

Since the last Annual Meeting, the Board of Directors has, through death and retirement of senior members, lost three of its valued members. The death in December last of Lt. Col. W. Eric Phillips, who had served as a Director for eighteen years, was an occasion of profound sorrow for your Board. Mr. E. C. Fox and Mr. Norman D. Wilson, having together contributed forty years of valued service as Directors, tendered their resignations which were accepted with much regret. Mr. Wilson, an acknowledged authority in the field of public transportation, has served as advisor to the Company since 1927. Mr. Fox who served for many years as Vice-President and, later, as Chairman of the Board was appointed an Honorary Director of the Company.

To fill these vacancies on the Board your Directors have appointed:

Mr. John F. Gallagher of Chicago, Vice-President—International Operations of Sears, Roebuck and Co., and a director of several prominent companies and international organizations;

Mr. Lewis B. Harder of New York City, Chairman of the Board of International Mining Corporation and a director of other major industrial and mining companies in Canada, the United States, and Latin America;

Mr. Hermann J. Abs of Frankfurt, Germany, a member of the Board of Managing Directors of Deutsche Bank AG, and Chairman of the Board of Directors of a number of important industrial, transportation and public utility companies in the Federal Republic of Germany.

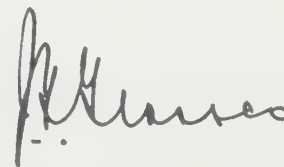
In January of this year Mr. Henry Borden asked to be relieved of his duties as Chairman of the Board. The Board, in accepting Mr. Borden's resignation with regret, tendered to him its gratitude and appreciation for his outstanding services to the Company. Mr. Borden joined the Company in 1946 as President and served in that office until 1963, the longest term of any incumbent of that office since the founding of the Company. The progress made by the organization during this period is a testimony of the inspired leadership and outstanding service rendered by him. Your Directors are gratified that Mr. Borden continues as a member of the Board.

Mr. R. T. Donald resigned as Secretary of the Company in August, 1964, after many years of valued service, to accept a senior position on the staff of the Faculty of Law of Dalhousie University, Halifax, N.S. In his place Mr. L. A. Allen, a member of the Ontario bar, was appointed Secretary of the Company.

STAFF

Your Directors express once again the Company's appreciation of the loyal and efficient service rendered by all members of the organization in Brazil and in the North throughout the year.

For the Board of Directors,



President

April 20, 1965

COMBINED STATISTICS OF THE OPERATING COMPANIES

	1964	1963	1962	1961	1960
ELECTRIC LIGHT AND POWER					
Kilowatt-hours sold					
Residential - - - - -	2,449,172,071	2,302,371,824	2,172,889,089	1,989,071,155	1,819,395,965
Commercial - - - - -	1,841,408,312	1,823,323,665	1,768,752,536	1,653,911,232	1,517,629,128
Industrial - - - - -	5,325,742,021	5,373,399,119	5,481,861,347	4,961,279,790	4,473,191,691
Public utilities and others - - - - -	1,624,499,660	1,683,785,510	1,669,613,036	1,612,306,063	1,552,286,988
Total - - - - -	11,240,822,064	11,182,880,118	11,093,116,008	10,216,568,240	9,362,503,772
Capacity of generating plants (KW) - -	2,146,823	2,147,550	2,100,800	2,054,050	1,989,050
Customers - - - - -	2,182,275	2,076,710	1,975,331	1,868,632	1,766,362
Transmission lines (miles of circuit) - -	2,495	2,489	2,460	2,431	2,386
Distribution lines (miles of wire) - - -	101,615	98,623	91,678	87,561	83,532
TELEPHONES					
Number of telephones in service - - -	862,648	844,725	832,047	812,037	787,198
Percentage dial operated - - - - -	89.0%	88.7%	88.3%	87.9%	87.8%
Average daily completed calls					
Local - - - - -	16,363,685	16,078,906	15,451,363	14,793,093	13,778,514
Long distance - - - - -	266,425	263,656	258,539	240,014	231,798
Wire (miles) - - - - -	2,928,192	2,894,453	2,851,712	2,796,642	2,781,581
Toll circuit (miles) - - - - -	308,948	309,794	283,315	269,476	267,809
Microwave circuit (miles) - - - - -	111,964	107,210	107,210	81,138	81,138
GAS					
Gas sold (cubic feet) - - - - -	11,927,080,313	11,489,132,733	11,987,827,575	11,554,623,579	11,738,437,176
Customers - - - - -	413,301	406,989	403,633	396,455	387,985
Mains (miles) - - - - -	1,450	1,449	1,447	1,442	1,440
EMPLOYEES					
Number of employees in Brazil - - -	40,293	39,916†	45,017	45,022	45,642

†Excludes 6,005 employees of the tramway service who on December 31, 1963 became employees of the State of Guanabara.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto 1

CANADA

AUDITORS' REPORT

To the Shareholders of
Brazilian Traction, Light and Power Company, Limited:

We have examined the consolidated balance sheet of Brazilian Traction, Light and Power Company, Limited and subsidiary companies as at December 31, 1964, and the statements of consolidated income and earned surplus for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying consolidated balance sheet and statements of consolidated income and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1964, and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants.

Toronto, Canada
April 21, 1965.

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

AND SUBSIDIARY COMPANIES

<i>Assets</i>	DECEMBER 31	1964	1963
FIXED ASSETS:			
Utility plant in service - - - - -		\$ 993,014,219	\$ 978,097,360
Construction work in progress - - - - -		11,562,752	15,635,103
Other physical property - - - - -		2,090,091	2,358,272
Total property, plant and equipment at cost - - - - -		1,006,667,062	996,090,735
Rights, franchises, contracts and goodwill - - - - -		1	1
		1,006,667,063	996,090,736
PREPAID EXPENSES AND OTHER ASSETS:			
Prepaid expenses and other deferred items - - - - -		2,939,311	1,184,067
Securities and cash on deposit with trustee under trust indentures - -		7,602,799	7,766,785
Other investments - - - - -		4,923,018	4,870,851
Sundry assets, including long-term receivables - - - - -		6,581,956	3,087,432
		22,047,084	16,909,135
CURRENT ASSETS: (Note 3)			
Cash - - - - -		6,781,439	8,251,938
Amounts due from the Bank of Brazil (Note 4) - - - - -		8,254,346	8,557,988
Short-term investments and deposit receipts - - - - -		14,361,662	12,924,487
Deposits in connection with exchange contracts - - - - -		2,158,860	2,756,157
Consumers' deposits lodged with government banks - - - - -		243,515	274,537
Accounts receivable - - - - -		17,992,840	10,572,004
Materials and supplies valued at average cost less allowance for obsolescence - - - - -		10,380,983	11,765,714
		60,173,645	55,102,825
On behalf of the Board:			
J. GRANT GLASSCO } E. G. BURTON } Directors			
(See accompanying notes)		\$1,088,887,792	\$1,068,102,696

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1964

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1963)

Liabilities

	DECEMBER 31	1964	1963
SHAREHOLDERS' EQUITY:			
Capital			
Authorized—			
3,934 6% cumulative convertible preference shares			
of a par value of \$100 each			
20,000,000 ordinary shares of no par value			
Issued and outstanding—			
3,934 preference shares - - - - -	\$ 393,400	\$ 393,400	
17,294,671 ordinary shares - - - - -	184,521,722	184,521,722	
	184,915,122	184,915,122	
Earned surplus (Note 5) - - - - -	317,272,853	317,766,261	
Legal reserves - - - - -	4,464,522	4,435,553	
	506,652,497	507,116,936	
MINORITY INTEREST IN SUBSIDIARY COMPANIES - - - - -	34,362,756	34,231,619	
CONTRIBUTIONS IN AID OF CONSTRUCTION - - - - -	19,059,776	16,167,195	
LONG-TERM DEBT (per attached statement) - - - - -	88,377,684	101,409,163	
ACCUMULATED PROVISIONS FOR DEPRECIATION AND AMORTIZATION:			
Depreciation - - - - -	337,869,396	318,749,923	
Amortization (Note 6) - - - - -	34,389,005	34,389,005	
	372,258,401	353,138,928	
DEFERRED CREDITS TO INCOME AND OTHER ACCOUNTS - - - - -	16,278,196	11,584,464	
CURRENT LIABILITIES:			
Notes payable to banks - - - - -	1,177,195	884,803	
Accounts payable and accrued charges - - - - -	38,345,753	32,135,867	
Consumers' deposits (per contra) - - - - -	243,515	274,537	
Long-term debt payable within one year - - - - -	10,449,776	9,329,506	
Interest and dividends due and accrued - - - - -	1,682,243	1,829,678	
	51,898,482	44,454,391	
(See accompanying notes)	\$1,088,887,792	\$1,068,102,696	

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES

Statement of Long-Term Debt

AS AT DECEMBER 31, 1964

Brazilian Traction, Light and Power Company, Limited:

Collateral Trust Bonds:

4¼%, 4½%, 4⅞% and 6% serial bonds Series A, due semi-annually 1965 to 1978 inclusive, payable in U.S. funds - - - - -	\$50,990,168
4¼%, 4½% and 6% serial bonds Series B, due semi-annually 1965 to 1978 inclusive, payable in Canadian funds—Can.\$16,831,286 - - - - -	16,216,571
4½% and 6% serial bonds Series C, due semi-annually 1965 to 1978 inclusive, payable in various funds—£363,297; Swiss Francs 2,424,000; Mexican Pesos 6,456,000; German Marks 1,962,000; French Francs 5,578,000 - - - - -	3,859,537
4¾% bonds Series D, due 1970, payable in Canadian funds—Can.\$3,559,500 - - - - -	3,406,220
4½% bonds Series E, due 1971, payable in Canadian funds—Can.\$4,953,000 - - - - -	4,694,787
5% bonds Series F, due 1981, payable in £ sterling—£246,713 - - - - -	1,000,558

International Bank for Reconstruction and Development:

Amount drawn down to December 31, 1964 and not funded, due semi-annually 1965 to 1978 inclusive, payable in various funds—Canadian \$248,423; Swiss Francs 403,407; French Francs 9,978; United States \$772,183; Mexican Pesos 4,206; German Marks 819,678; Belgian Francs 981,130; Netherlands Guilders 91,309; Swedish Kronor 213,883; and £614 - - - - -	1,392,724
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Rio Light S.A.—Serviços de Eletricidade:

Bank loan payable 1965, in Brazilian funds—Cr\$140.000.000 - - - - -	75,676
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São Paulo Light S.A.—Serviços de Eletricidade:

5% perpetual consolidated debenture stock (secured by floating charge), redeemable annually to 1997—£732,589	3,565,267
Notes payable to supplier, due semi-annually 1965 to 1968 inclusive, payable in U.S. funds - - - - -	10,996,606

Companhia Telefônica Brasileira:

Notes payable and long-term liabilities to suppliers, payable 1965 and 1966, in various funds—£10,742; German Marks 27,429; Belgian Francs 2,090,265 - - - - -	78,769
Mortgage loan payable in instalments 1965 to 1969 inclusive, in Brazilian funds—Cr\$66.275.011 - - - - -	298,601
Bank loan payable 1965, in Brazilian funds—Cr\$65.740.000 - - - - -	35,535

Companhia Telefônica de Minas Gerais:

Notes payable and long-term liabilities to suppliers, payable 1965 and 1966, in various funds—Cr\$19.768.162; Swedish Kronor 797,762; Belgian Francs 942,856; German Marks 43,429; and £146,865 - - -	605,743
Bank loans payable in instalments 1965 to 1976 inclusive, in Brazilian funds—Cr\$142.924.914 - - - - -	846,616
9% convertible debentures, due 1975, payable in Brazilian funds—Cr\$194.445.000 - - - - -	236,812

Companhia Telefônica do Espírito Santo:

9% redeemable debentures, due 1971 to 1984, payable in Brazilian funds—Cr\$145.899.000 - - - - -	527,270
	98,827,460

Less amount payable within one year included under current liabilities - - - - -	10,449,776
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(See accompanying notes) \$88,377,684

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

FOR THE YEAR ENDED DECEMBER 31, 1964 (WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1963)

	1964	1963
Operating revenues - - - - -	\$149,404,416	\$159,378,431
Operating revenue deductions:		
Operating expenses including provision for estimated taxes - - - - -	118,609,902	126,238,889
Provision for depreciation - - - - -	21,773,982	21,228,646
	140,383,884	147,467,535
Operating income - - - - -	9,020,532	11,910,896
Other income:		
Income from investments - - - - -	1,780,468	1,175,143
Net profit on sales of fixed assets - - - - -	441,033	155,720
Miscellaneous (net) - - - - -	(11,249)	(137,535)
	2,210,252	1,193,328
Net income before interest and other financial charges - - - - -	11,230,784	13,104,224
Income deductions:		
Interest on long-term debt - - - - -	5,011,236	5,507,441
Interest charged to construction—credit (Note 7) - - - - -	(58,483)	(143,198)
Foreign exchange adjustments (Notes 1 and 2) - - - - -	6,598,328	8,199,031
Equity of minority shareholders - - - - -	122,244	774,962
	11,673,325	14,338,236
Net loss for the year - - - - -	\$ 442,541	\$ 1,234,012

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED DECEMBER 31, 1964

Balance at December 31, 1963 - - - - -	\$317,766,261
Deduct net loss for the year ended December 31, 1964 - - - - -	442,541
	317,323,720
Deduct:	
Dividends on preference shares—Can. \$6 per share - - - - -	\$21,898
Appropriations to legal reserves - - - - -	28,969
	50,867
Balance at December 31, 1964 - - - - -	\$317,272,853

(See accompanying notes)

BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

AND SUBSIDIARY COMPANIES

Notes to Financial Statements

1. CONVERSION OF FOREIGN CURRENCIES

The Company's financial statements are expressed in terms of U.S. currency. Assets and liabilities and revenues and expenses in currencies other than U.S. dollars are converted into U.S. funds on the following bases:

Fixed assets and related accumulated provisions for depreciation and amortization	}	At the rates of exchange prevailing when transactions giving rise to such items occurred; transactions in cruzeiros since December 31, 1952, have been converted at free market rates.
Other investments		
The major portion of materials and supplies		
Capital stock		
Legal reserves		
Contributions in aid of construction		
Long-term debt		
The major portion of deferred credits		
All other assets and liabilities (consisting principally of current assets and current liabilities)	}	Brazilian currency items (Note 2):
		At December 31, 1964—1,850 cruzeiros to the U.S. dollar.
		At December 31, 1963—1,200 cruzeiros to the U.S. dollar.
	}	Other items:
		At the rates of exchange prevailing at December 31.
Cruzeiro revenues (other than interest charged to construction) and cruzeiro expenses (other than depreciation) - - - - -		At the composite earnings rate determined in the manner referred to below.
Interest charged to construction - - - - -		At average free market rates.
Provision for depreciation for the year - - - - -		At the same rates as those used for the conversion of the related assets.
Revenues and expenses other than those in cruzeiros -		At average monthly rates of exchange for the currencies involved.
Dividends (including dividends to minority holders of preference shares of subsidiaries) - - - - -		At the rates of exchange prevailing when the dividends were appropriated or provided for.

The composite earnings rate referred to above is the rate resulting from the conversion into U.S. dollars of cruzeiro net income as follows:

	Cruzeiros to U.S. \$	
	1964	1963
(a) In respect of dollars purchased for remittance during the year, at the actual rates of exchange at which such dollars were purchased, the average of such rates being - - - - -	1,212	580
(b) In respect of the balance of cruzeiro net income, at the average free market rate of exchange for the year, viz. - - - - -	1,293	578
The resulting composite earnings rate was - - - - -	1,264	578

2. CONVERSION OF CERTAIN BRAZILIAN CURRENCY ITEMS AT DECEMBER 31, 1963 AND 1964

At December 31, 1963 the "free" market exchange rate was 620 cruzeiros to the U.S. dollar. This rate which had been fixed by the Bank of Brazil since April 22, 1963 was partially liberated on February 19, 1964 and subsequent transactions up to the date of the 1963 Annual Report (April 21, 1964) were carried out at rates ranging from 1,130 to 1,200 cruzeiros to the U.S. dollar. In view of this reduction of approximately 50%, the rate of 620 cruzeiros to the U.S. dollar was considered inappropriate for the conversion of "All other assets and liabilities" in Brazilian currency at December 31, 1963 and these, consisting principally of current assets and liabilities, were accordingly valued at 1,200 cruzeiros to the U.S. dollar.

The free market rate for the cruzeiro weakened further during the balance of 1964. The rate at December 31, 1964 was 1,850 cruzeiros to the U.S. dollar and this rate still prevails at the date of this report. As indicated in Note 1 above, this is the rate used for the conversion of "All other assets and liabilities" at December 31, 1964.

3. EXCHANGE RESTRICTIONS

Cash and deposits in connection with exchange contracts include balances in Brazil, the transfer of which is subject to the exchange regulations of that country.

4. AMOUNTS DUE FROM THE BANK OF BRAZIL

These represent dollar remittances (\$8,254,346) paid for in cruzeiros of which \$4,000,000 has been received since the end of the year.

5. EARNED SURPLUS

Under the collateral trust indenture securing the issued funded debt of Brazilian Traction, Light and Power Company, Limited, the payment of dividends and other distributions to shareholders subsequent to December 31, 1946 are not in the aggregate to exceed consolidated net income of the Company and its subsidiaries earned since that date.

6. PROVISION FOR AMORTIZATION

This provision, accumulated prior to 1953, may be required to cover the undepreciated cost of certain properties upon their reversion at varying dates up to 1990 under the terms of some of the concessions under which Rio Light S.A.—Serviços de Eletricidade and its gas subsidiary operate.

7. INTEREST DURING CONSTRUCTION

Interest has been capitalized during construction in the case of electric properties since January 1, 1957.

8. REMUNERATION OF DIRECTORS, ETC.

The following amounts were paid during 1964: remuneration of directors (excluding executive officers) \$45,917, remuneration of counsel, solicitors and legal advisors including payments by subsidiary companies \$71,449, and remuneration of executive officers including payments by subsidiary companies \$609,522.

9. PURCHASE OF NATIONAL TREASURY BONDS

Certain subsidiary companies which effected a monetary correction of their fixed assets and foreign debt in accordance with the provisions of Law 4357 are obligated, in lieu of paying a tax on the resulting increase in their cruzeiro capital, to purchase 6% National Treasury Bonds aggregating approximately 36 billion cruzeiros (equivalent to approximately 19 million dollars at the exchange rate of 1,850 cruzeiros to the U.S. dollar), the purchase price being payable by the companies in monthly instalments over long periods. These bonds, which are non-transferable, mature in five years and may be applied after maturity in payment of any federal taxes. While payable in cruzeiros, they are subject to periodic monetary corrections in proportion to variations in the purchasing power of the cruzeiro.










10. NATIONALIZATION OF PRIVATELY-OWNED UTILITIES

The federal intervention in the Company's telephone utility decreed on April 2, 1962, for the purpose, among others, of maintaining the integrity of the country's telecommunications system, continues in force.

The policy of purchasing the privately-owned electric utilities, adopted in 1962 by the Federal Government of Brazil, has been reversed by the present Government.

ELECTRIC LIGHT AND POWER SYSTEMS

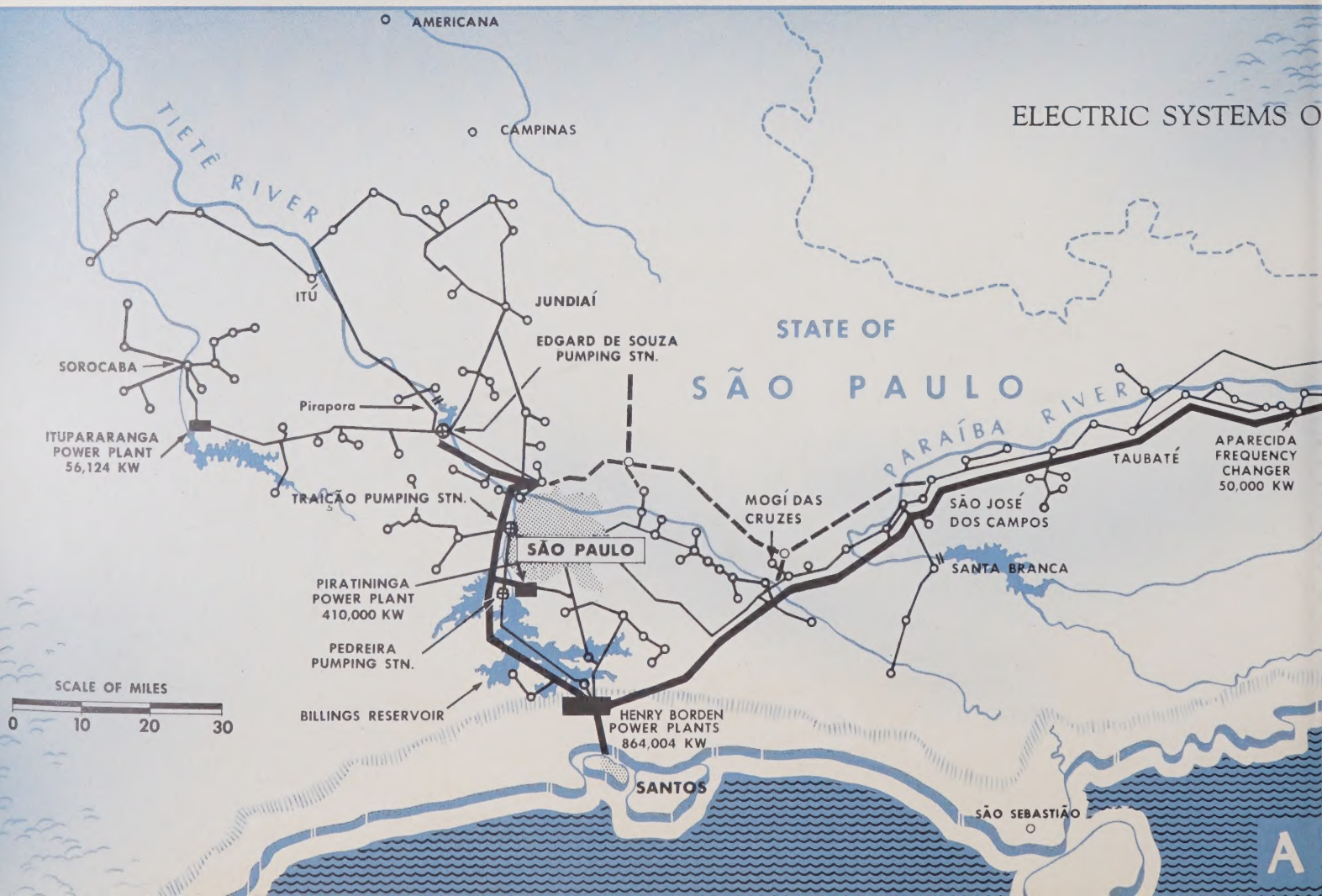
LEGEND

-  MAIN HYDRO-ELECTRIC AND THERMAL POWER PLANTS
-  SUBSTATIONS
-  PRINCIPAL TRANSMISSION LINES
-  SECONDARY TRANSMISSION LINES
-  OTHER COMPANIES' TRANSMISSION LINES
-  RESERVOIRS
-  STORAGE DAMS
-  PUMPING STATIONS
-  SERVICE AREAS

PRINCIPAL EXISTING AND PROJECTED SOURCES OF POWER FROM OTHER COMPANIES



ELECTRIC SYSTEMS OF



TELEPHONE SYSTEMS OF SUBSIDIARY COMPANIES



STATE OF SUBSIDIARY COMPANIES

